



U. S. Department of Housing & Urban Development

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Richmond, VA 23219
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DEC 1 2004

Mr. L. Kimball Payne
City Manager
City of Lynchburg
900 Church Street
Lynchburg, VA 24505

DEC 06 2004

Dear Mr. Payne:

This letter will serve as our assessment of the city's overall performance during the FY 2003 Consolidated Plan program year (July 1, 2003 through June 30, 2004) in the planning and implementation of HUD/CPD assisted activities. This report includes certain determinations in the areas of progress, accomplishments, beneficiaries, and compliance with statutory, regulatory and policy requirements.

Our assessment is based on a review of the Comprehensive Annual Performance and Evaluation Report (CAPER) including the supplemental narratives, financial summary, and reports generated by the Integrated Disbursement and Information System (IDIS), and the review of the most recent Consolidated Plan and Action Plan.

The city's performance report did a very good job of describing how its HUD funds were expended and what was accomplished. The format used by the city identified each priority as contained in the plan and provided information on the amount of CDBG and/or HOME funds that were expended and what was accomplished. The city also did a good job of relating its annual accomplishments to the five-year goals. Specifically, the city provided charts that reflected the numbers of completed projects in relation to the annual and five year goals for the various categories of projects. An analysis of the charts revealed that performance on an annual and five-year basis generally exceeded anticipated performance. The city's efforts to incorporate local performance measurements can be found in the Self Evaluation and Assessment of Funds sections of the report. In its reporting of accomplishments in the area of affordable housing and poverty, the city included information on the income and demographics of the beneficiaries. Information on accomplishments was provided in the CAPER and in the IDIS reports. Selected IDIS reports were included as part of the city's CAPER submission. These reports are helpful in presenting detailed information regarding individual activity performance and accomplishments. However, the technical nature of the format tends to make public comprehension difficult and overwhelming. Consequently, the city summarized noteworthy aspects of the various IDIS reports for better public understanding.

The financial analyst has approved the Financial Summary and the Line of Credit Control System reconciliation reports.

The city reported on its efforts in the area of affirmatively furthering fair housing. Our Fair Housing Division reviewed this portion of the CAPER and recommended approval.

A summary analysis of our reviews of your performance as related to the Community Development Block Grant (CDBG) and HOME Investment Partnerships (HOME) programs follows.

2003 CDBG FUNDS

During the FY 2003 program year, \$5,113,141 of CDBG funds was available to accomplish various community development activities that consisted primarily of public services, public facilities, housing rehabilitation, code enforcement, acquisition of real property, slums and blight abatement and economic development. The total amount available represented a \$2,106,410 increase from the previous period. This amount was greatly influenced by the inclusion of \$2,504,000 from the recently approved Section 108 Loan Guarantee, and to a lesser degree by the program income that was received in the previous program year but not programmed; the program income that was estimated to be received during the course of the program year; and by returned funds from previously funded activities. Of the total amount available, \$3,679,182 (72 percent) was reported as expended. The total amount of CDBG funds reported as expended represents an increase (\$1,984,821) from the \$1,693,745 of CDBG funds reported as expended in last year's report. The unexpended balance at the end of the reporting period is \$1,433,959. The unexpended balance for the previous year's reporting was \$1,312,986. A more detailed analysis of the unexpended balance for each program year is presented in conjunction with the reviews of IDIS Report C04PR02. Specific comments relating to the performance of individual activities are provided in the following portions of this assessment. The city also addressed this matter in a very comprehensive manner in its report. The status of the unexpended balance is very important because it directly affects compliance with the statutory requirement that funds be expended in a timely manner.

Regarding program specific threshold requirements, the following determinations were made.

- **Administrative and Planning Cap:** The city is in compliance with the 20 percent limitation imposed on these types of expenditures. Approximately 11 percent was expended for program administration and planning (last year approximately 18 percent was reported as being expended for this category).
- **Public Service Cap:** The city is in compliance with the 15 percent limitation imposed on expenditures under this category of activity. The city reported public service expenditures of approximately 12 percent (last year the percentage was approximately 6 percent).
- **Overall 70 percent L/M Benefit:** The city has selected a one-year certification period. The percentage of L/M benefit for this year as computed by the city is 80.5 percent. 93.23 percent was reported last year. The city is in compliance with this requirement.
- **Timely Expenditure of Funds:** In accordance with 24 CFR 570.902, sixty days prior to the end of its program year, the amount of undisbursed CDBG funds should not be more than 1.5 times the program year grant amount. Our application of this test determined the city to be in compliance with this requirement with a balance of 1.48 percent. This test will again be applied in April 2005 for application of the FY 2005 funds. Efforts to monitor the spending rates of individual activities are essential to achieving and maintaining strong performance in this area.

A comparison of certain key financial indicators contained in the Financial Summary Reports for this and the previous reporting period were analyzed. The comparison revealed that the total amount of CDBG expenditures increased dramatically as a result of the Section 108 Loan Guarantee, and the unexpended balance of CDBG funds realized a slight increase. Continued actions to review the progress in the respective areas are encouraged in order to further enhance overall performance. As previously mentioned, other areas of this assessment will focus on individual performance.

A detailed analysis was made of the performance (expenditures and accomplishments) for the projects and activities reported in IDIS. The results are presented below according to IDIS report number.

IDIS Report C04PR02, List Of Activities By program Year and Project

A separate report for grant years FY 1998 through FY 2003 was downloaded and reviewed by the city and HUD. The purpose of the review was to analyze the unexpended balance and the status of the various activities contained in the report. The funded amount can exceed the grant as a result of program income and the reprogramming of funds from prior years. The results are as follows.

Grant Year	Total	Unexpended Balance As of 6/30/2003	Unexpended Balance As of 6/30/2004
FY 2002	\$1,187,982	\$727,160	\$369,415
FY 2001	\$1,177,993	\$280,534	\$80,554
FY 2000	\$1,138,205	\$15,802	\$94,793
FY 1999	\$1,074,059	\$53,033	\$15,222
FY 1998	\$1,251,059	\$69,467	-0-
Total	\$5,829,298	\$1,145,996	\$586,984

The report format identifies the completion status for each activity and provides information regarding the funded amount, drawdowns and balance. A review of the report is helpful in identifying the activities that may require additional attention in order to improve expenditures and activity completion. As demonstrated in the above chart, the city has made considerable progress in reducing the individual and overall balances. The overall unexpended balance was reduced by \$559,012 this reporting period. The city's efforts in improving the situation are acknowledged.

IDIS Report C04PR03, CDBG Activity Summary Report

The review of this report identified a number of activities that had not expended any funds or have a balance of funds to expend. The city's narratives provided additional information that addressed the respective activity balances. Notwithstanding, this review is important because it reinforces the comments related to the timeliness test and unexpended balance. The specific activities were identified in the report by the city. The city also provided a detailed analysis of the situation.

The above review identified a total of 14 pre FY 2002 activities that have a combined unexpended balance of \$190,569. As pointed out by the city, the review of last year's report noted a total of 22 pre FY 2002 activities that had an unexpended balance of \$418,836.

A comparison of the two reports notes considerable progress by the city in reducing the balance. Additionally, the city has reported that the unexpended balance has been reduced by \$18,418 after the close of the reporting period. We, therefore, concur with the city's assessment that significant progress in this area is being made. Additionally, we recommend that where practical, the city close out activities that contain small balances and reprogram the funds.

IDIS Report C04PR06, Summary of Consolidated Plan Projects

The review of this report identified acceptable performance regarding the commitment or expenditure of funds. This report helps the city manage projects by reporting on the amount of funds committed and drawn. Our analysis revealed the following:

FY 1999: 28 projects, only four projects have funds available to draw down.

FY 2000: 31 projects, only two projects have funds to draw down.

FY 2001: 37 projects, 31 projects fully drawn, balance of projects are still underway.

FY 2002: 27 projects, 15 projects fully drawn, one project has not drawn any funds, balance of projects still underway.

FY 2003: 28 projects, six projects fully drawn, six projects uncommitted/no funds drawn, balance of projects underway.

Finally, we are pleased to note that the city reported that it is in the process of completing a financial analysis of the CDBG program. The detailed analysis will compare project estimates to IDIS project estimates, commitments and drawdown amounts. A copy of this report will be provided to this office upon completion.

Real Property Inventory

The review of the real property inventory as contained in the report revealed the following.

- The inventory contained 49 parcels organized in chronological order according to acquisition date.
- The inventory reported the sale of 8 parcels, and the receipt of \$27,840 in corresponding program income.
- Since July 1, 2004, an additional 20 properties are in the process of being sold.

Other

Information contained in the CAPER and the IDIS reports will continue to be used to further analyze program performance on a project/activity basis throughout the year.

Our Fair Housing and Equal Opportunity (FHEO) division recommended approval.

The city should follow-up on the comments identified in the above reviews.

2003 HOME FUNDS

The HOME program portion of the city's CAPER was reviewed and found to be complete for the required submissions. Regarding program performance as related to fund management, of the total funding to-date, \$4,364,435 (including program income but excluding the recently awarded 2004 funds) \$3,893,289 (89 percent) has been disbursed.

This includes the fact that the city is also in compliance with the minimum set-aside for CHDO activities. Accordingly, the city is timely in its overall management of its HOME program funds. HUD provides quarterly information for the HOME program in a format known as "Performance Snapshots". This information is available on the HUD Web. A copy of the overall report for Lynchburg and an explanation of the performance categories are enclosed.

A detailed analysis was made of the performance (expenditures and accomplishments) of the HOME projects as reported in IDIS. The results are presented below according to the IDIS report number.

IDIS Report C04PR06, Summary of Consolidated Plan Projects

The city is in the process of completing a more detailed financial analysis of this report.

IDIS Report C04PR22, Status of HOME Activities

An analysis of this report confirmed the following accomplishments as reported by the city for this reporting period. The number of HOME projects committed according to activity type measures the accomplishments. The corresponding dollars committed are also included. A significant improvement in the timely entry of completion information was also noted.

New Construction: No new projects reported. One open project.

Rehabilitation: During this period, 26 projects resulted in the commitment of \$238,361 in HOME funds. Last year 15 projects resulted in the commitment of \$44,579 in HOME funds during the reporting period. The review of this report also noted that projects, 678, 679, 703, 704, and 707 remain open with a small-unexpended balance. It may be the case that more funds were committed than actually needed. If this is the case, the city should modify the committed amount to equal the amount drawn in order to close the activity. The city also addressed the open status for each uncompleted rehabilitation project. The information provided by the city was satisfactory.

Acquisition Only: The city reported 16 new projects that committed \$85,165 of HOME funds for this category of assistance. The report for last year reported nine projects that committed, \$35,762. The city provided detailed information regarding the open status of each project that was over one-year old. The information provided by the city provided reasonable justification for the open status of each project. We are pleased to see this type of analysis and use of IDIS as a management tool.

Acquisition and Rehabilitation: The city reported two new projects that committed \$141,468 of HOME funds. The city provided detailed information regarding the open status of each project that was over one-year old. The information provided by the city provided reasonable justification for the open status of each project. We are pleased to see this type of analysis and use of IDIS as a management tool.

Acquisition and New Construction: No new projects were reported. However, one project was successfully completed.

IDIS Report C04PR25, Status of CHDO Funds

With the exception of the \$17,761 of FY 1994 funds reserved and committed to Rush Homes, disbursements are considered satisfactory. Regarding the \$17,761, the city anticipates the expenditure of the funds during the course of the FY 2004 program year.

The city also provided information regarding the status of FY 2001 through 2003 CHDO funds.

In accordance with program regulation, the city must reserve no less than 15 percent of its annual HOME allocation for housing that is developed, sponsored, or owned by a CHDO. A review of the HOME funds provided from FY 1994 through FY 2003 disclosed that of the \$4,739,274 of available HOME funds, the city reserved \$911,459 for CHDO projects. This dollar amount is equal to approximately 21.3 percent of the total. As a result, the city is in compliance with the requirement.

HOME Match Report, Form HUD-40107-A

The city is in compliance with the matching requirements of the HOME program. It should also be noted that as a result of the program's criteria related to distress, the city match is reduced by 50 percent.

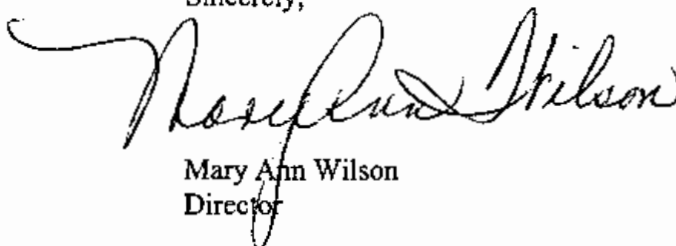
Overall Evaluation

HUD has determined that the overall progress and performance in the administration of the HUD-assisted programs is satisfactory. This determination is based on our review and approval of the 2004 CDBG Action Plan, the 2003 CAPER, the FY 2000-2005 Consolidated Plan, and all other information available to this office at this point in time, and does not reflect a comprehensive evaluation of specific activities with the exception of those noted in our monitoring reports and CAPER review.

Finally, detailed information on the budget and various HUD programs and initiatives can be found on our Web Page at www.hud.gov.

Should you have any questions concerning this letter or other items related to community planning and development programs, you may contact LeRoy P. Brown, Acting Community Planning and Development Director, at extension 3766. Additionally, please feel free to call me at extension 3736 regarding this correspondence or any of HUD's programs in general. Staff requiring assistance should contact Carmen Bucci at extension 3767.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary Ann Wilson", is written over a printed name and title.

Mary Ann Wilson
Director

Enclosure

cc:

Melva Walker

Administrative and Grants Manager

SNAPSHOT of HOME Program Performance—As of 6/30/04
Local Participating Jurisdictions with Rental Production Activities



Participating Jurisdiction (PJ): **LYNCHBURG**

State: **VA**

PJ's Total HOME Allocation Received: **\$4,263,955**

PJ's Size Grouping*: **C**

PJ Since (FY): **1994**

Category	PJ	State Average	State Rank	Nat'l Average	Nat'l Ranking (Percentile):**	
					Group C	Overall
Program Progress:				PJs In State: 15		
% of Funds Committed	96.27 %	96.62 %	9	95.86 %	46	50
% of Funds Disbursed	91.31 %	87.53 %	5	84.35 %	65	68
Leveraging Ratio for Rental Activities	0.07	2.48	15	3.31	4	3
% of Completed Rental Disbursements to All Rental Commitments***	19.25 %	51.99 %	14	49.57 %	8	8
% of Completed CHDO Disbursements to All CHDO Reservations***	62.38 %	62.35 %	8	46.72 %	63	63
Low-Income Benefit:						
% of 0-50% AMI Renters to All Renters	100 %	80.65 %	1	74.61 %	100	100
% of 0-30% AMI Renters to All Renters***	19.05 %	40.59 %	12	41.65 %	17	15
Lease-Up:						
% of Occupied Rental Units to All Completed Rental Units***	100 %	95.9 %	1	88.84 %	100	100
Overall Ranking:				In State:	13 / 15	Nationally: 32 29
HOME Cost Per Unit and Number of Completed Units:						
Rental Unit	\$2,361	\$15,467		\$21,287	21 Units	7.2 %
Homebuyer Unit	\$9,525	\$14,608		\$11,411	135 Units	46.2 %
Homeowner-Rehab Unit	\$11,584	\$18,192		\$18,268	136 Units	46.6 %
TBRA Unit	\$0	\$5,209		\$3,424	0 Units	0 %

* - A = PJ's Annual Allocation is greater than or equal to \$3.5 million (53 PJs)

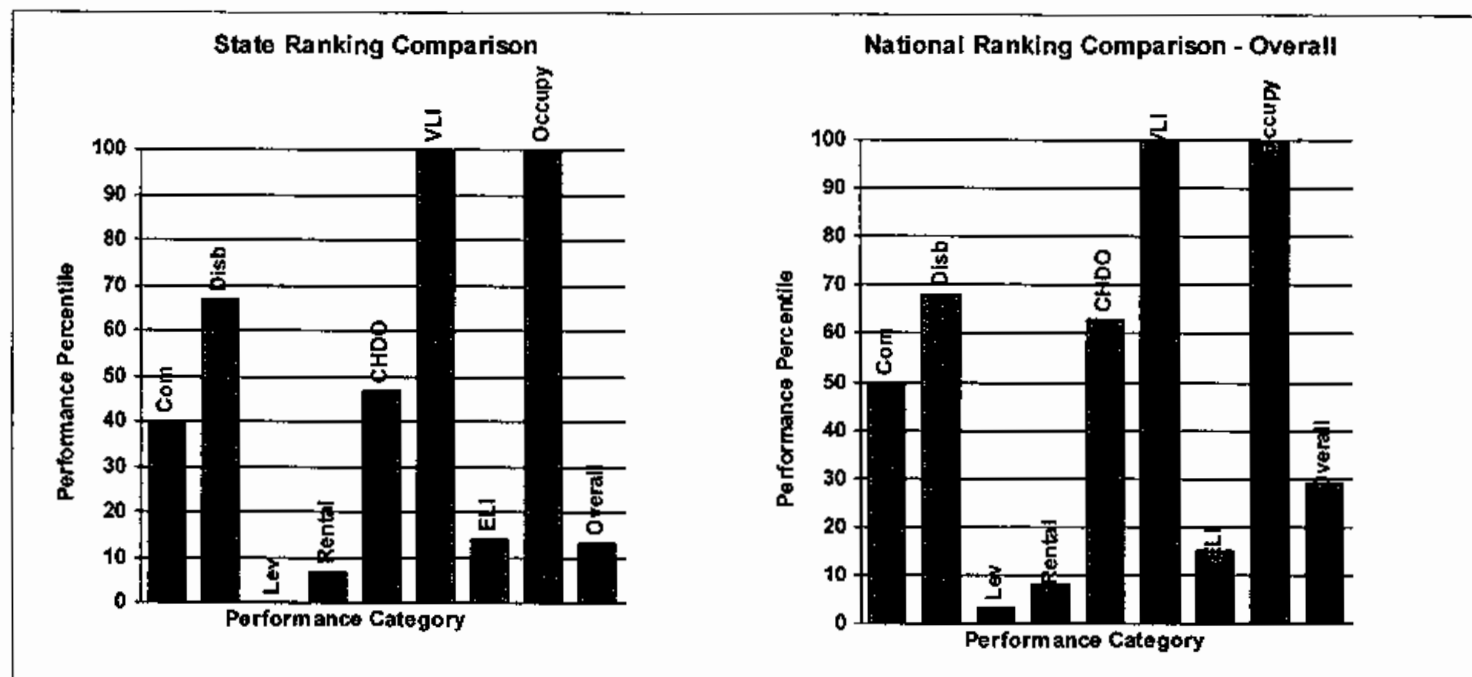
B = PJ's Annual Allocation is less than \$3.5 million and greater than or equal to \$1 million (211 PJs)

C = PJ's Annual Allocation is less than \$1 million (248 PJs)

** - E.g., a percentile rank of 70 means that the performance exceeds that of 70% of PJs.

*** - This category is double-weighted in compiling both the State Overall Ranking and the National Overall Ranking of each PJ.

Graphic Representations of State and National Ranking Comparisons



The two graphs above are a visual representation of the PJ's state and national rank in each performance category. The performance percentile indicates the extent to which the PJs' performance exceeds other PJs' for that category. For example, a PJ with a state performance percentile of 70% for commitments exceeds the performance of 70% of all PJs in the state.



Explanation of Performance Categories

-State PJs



% of Funds Committed (Com)	= Cumulative total to date of commitments to activities, including administrative and CHDO operating expenses, and program income attached to draws / Cumulative total of all grant allocations through 2004 (original allocations minus any deobligations).
% of Funds Disbursed (Disb)	= Cumulative total to date of net disbursements to activities, including administrative and CHDO operating expenses, and program income attached to draws / Cumulative total of all grant allocations through 2004 (original allocations minus any deobligations).
Leveraging Ratio (Lev)	= For rental activities only where the status has been changed to "CP" (completed), All HOME funds including program income / Total public, total private, and Low Income Tax Credit Syndication Proceed funds. In order to be able to make comparisons among PJs and rank them accordingly, the leveraging ratio has been converted to a percentage. For the purposes of this report a leveraging ratio of 4 to 1 is considered indicative of significant leveraging. Therefore, any PJ with a leveraging ratio of 4 to 1 or greater will receive a designation of 100% (a ranking of #1). Any PJ with a leveraging ratio of less than 4 to 1 will receive a lower score. For example, a PJ with a leveraging ratio of 2 to 1 (half of 4 to 1) will receive a designation of 50%.
% of Completed Rental Disbursements to All Rental Commitments (Rental)	= Cumulative total of disbursements on completed (where status has been changed to "CP") rental activities / Cumulative total of commitments on all rental activities
% of Completed CHDO Disbursements to All CHDO Reservations (CHDO)	= Cumulative total of disbursements on completed (where status has been changed to "CP") CHDO activities / Cumulative total of CHDO reservations
% of 0 – 50% AMI Renters to All Renters (VLI – Very Low Income)	= For activities where the status has been changed to "CP" (completed), Number of tenants whose income is 0 – 50% of area median income / Total number of tenants in occupied rental units
% of 0 – 30% AMI Renters to All Renters (ELI – Extremely Low Income)	= For activities where the status has been changed to "CP" (completed), Number of tenants whose income is 0 – 30% of area median income / Total number of tenants in occupied rental units
% of Occupied Rental Units to All Completed Rental Units (Occupy)	= For activities where the status has been changed to "CP" (completed), Number of tenant-occupied (not vacant) HOME-assisted rental units / Total number of completed HOME-assisted rental units
National Rank	= The National Rank compares the 51 state PJs within the nation, including Puerto Rico, but excluding Washington DC and Insular Areas. A rank of 1 is the highest; a rank of 51 is the lowest.
Overall Ranking	= The Overall Ranking compares the sum of a state PJ's percentages for all categories to that of other state PJs. See above for determining leveraging percentage.